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## Kaifu Puts In Strong Showing At London Summit

Prime Minister Toshiki Kaifu, who suffers from domestic criticism that he is a weak leader, apparently was every bit the major power standard-bearer at the July 15-17 summit in London of the leaders of the seven major industrial democracies, judging by the communiques. Mr. Kaifu played an important role in securing language in the concluding political and economic statements that reflected Tokyo's position on aid to the Soviet Union as well as the Japanese government's contention that the ban on rice imports should be maintained for reasons of "food security." Perhaps most important, according to chief cabinet secretary Misoji Sakamoto, the results of the three-day meeting of the heads of the United States, Japan, Great Britain, Canada, France, Germany and Italy reflected Tokyo's "global perspective" on the political and economic issues confronting the summit participants.

Some Japanese observers point to Soviet President Mikhail Gorbachev's inability to win a clear pledge of financial assistance from the seven major industrial democracies as a victory, of sorts, for Japan, the United States and Great Britain. Holding firm to their position at last year's Houston summit, Tokyo, Washington and London urged that the major powers hold off on granting aid until Moscow has made more progress in instituting market adjustments and in democratizing its political system. President Bush and Mr. Kaifu had reaffirmed their agreement on this issue at a presummit meeting in Kennebunkport,

stake in Bull's U.S.-based Bull HN Information Systems Inc. subsidiary for a 4.7 percent stake in the French computer maker. Prime Minister Cresson was concerned that the equity link eventually might imperil Bull's independence, but this concern was allayed when NEC agreed to allow the government to buy back its shares at any time. In another area of intense competition -- advanced television -- cooperation also is evident. In late June the telecommunications ministers of France and Japan agreed to push development of equipment that would translate Japan's high-definition television signals into a format that can be used by French HDTV broadcasts.

The commitment of both Brussels and Tokyo to better relations will not have to wait for a test. While Japan's trade surplus with the United States has been declining, its trade balance with the EC has tilted decidedly into the black as January-June 1991 exports rose by nearly 20 percent and imports shrank by more than 3 percent (see following article). Trade in cars poses particularly thorny problems. The community continues to press Tokyo to accept voluntary limits on car exports to the EC for a transitional period after 1992. Tokyo grudgingly accepts the need for interim controls but rejects any attempt by the EC to count cars produced by the European subsidiaries of Japanese companies as "imports." Other issues, such as EC antitrust and antidumping policies as well as the role of foreign firms in EC research and development programs, will provide additional tests of the new cooperation agreement.

Jon Choy

Japan's Trade Surplus Rises Again

Japan's worldwide dollar-denominated trade surplus jumped 33.9 percent in the April-June period compared to the figure for the comparable period of 1990, the second straight quarter of year-to-year growth after seven quarters of contraction (see Table). That news normally might presage a rhetorical barrage from across the Pacific. Yet this time Washington is likely to be relatively quiet. The dollar-denominated second-quarter surplus with the United States not only showed a 15.1 percent drop but was at its lowest level for the second quarter since 1983. The Japanese figures suggest that when the Department of Commerce releases the U.S. trade statistics for the first half of 1991 in August the deficit with Japan will be down again.

If Washington could take modest satisfaction from the latest Japanese trade numbers, Brussels could not; Japan's April-June imbalance with the European Community jumped 66.5 percent over a year earlier. Although Japan-EC trade is less than two-thirds that of Japan-U.S. commerce, Japan's $7 billion surplus with the EC in the second quarter was larger than that with the United States, reversing the typical pattern. In addition, the just-released data show that Japan's surplus with the rest of the world tripled in the April-June period compared to last year, although exports and imports in this category remained relatively equal.

Although the geographic distribution of Japan's trade imbalances may be troublesome for Tokyo, other aspects of the latest data paint a less gloomy picture for those policymakers hoping to avoid a sustained increase in Japan's global imbalances. As in the past, the most recent figures were influenced heavily by fluctuations in the yen-dollar exchange rate. Both imports and

## Japan's Total Trade in Dollar Terms

(in millions of dollars)

| | Exports (f.o.b.) | Change Over Year-Earlier Period | Imports (c.i.f.) | Change Over Year-Earlier Period | Trade Balance |
|---|---|---|---|---|---|
| 1986 | $209,151 | 19.1% | $126,408 | -2.4% | $82,743 |
| 1987 | 229,221 | 9.6 | 149,515 | 18.3 | 79,706 |
| 1988 | 264,917 | 15.6 | 187,354 | 25.3 | 77,563 |
| 1989 | 275,175 | 3.9 | 210,847 | 12.5 | 64,328 |
| 1990 | 286,948 | 4.3 | 234,799 | 11.4 | 52,149 |
| 1989: I | 68,227 | 13.2 | 51,142 | 14.9 | 17,085 |
| II | 67,602 | 3.7 | 51,292 | 8.5 | 16,310 |
| III | 69,595 | 3.6 | 53,048 | 12.3 | 16,547 |
| IV | 69,751 | -3.5 | 55,364 | 14.6 | 14,387 |
| 1990: I | 66,705 | -2.2 | 54,383 | 6.3 | 12,322 |
| II | 67,232 | -0.5 | 53,954 | 5.2 | 13,278 |
| III | 72,189 | 3.7 | 56,547 | 6.6 | 15,642 |
| IV | 80,822 | 15.9 | 69,914 | 26.3 | 10,908 |
| 1991: I | 76,384 | 14.5 | 61,820 | 13.7 | 14,564 |
| II (p) | 73,979 | 10.0 | 56,207 | 4.2 | 17,772 |

## Japan's Total Trade in Yen Terms

(in billions of yen)

| | Exports (f.o.b.) | Change Over Year-Earlier Period | Imports (c.i.f.) | Change Over Year-Earlier Period | Trade Balance |
|---|---|---|---|---|---|
| 1986 | Y35,290 | -15.9% | Y21,551 | -30.7% | Y13,739 |
| 1987 | 33,315 | -5.6 | 21,737 | 0.9 | 11,578 |
| 1988 | 33,939 | 1.9 | 24,006 | 10.4 | 9,933 |
| 1989 | 37,823 | 11.4 | 28,979 | 20.7 | 8,844 |
| 1990 | 41,457 | 9.6 | 33,855 | 16.8 | 7,602 |
| 1989: I | 8,705 | 12.9 | 6,516 | 14.6 | 2,189 |
| II | 9,222 | 13.0 | 6,997 | 18.2 | 2,225 |
| III | 9,911 | 11.0 | 7,547 | 20.2 | 2,363 |
| IV | 9,985 | 9.3 | 7,919 | 29.4 | 2,067 |
| 1990: I | 9,766 | 12.2 | 7,941 | 21.9 | 1,825 |
| II | 10,449 | 13.3 | 8,392 | 19.9 | 2,057 |
| III | 10,651 | 7.5 | 8,364 | 10.8 | 2,287 |
| IV | 10,592 | 6.1 | 9,159 | 15.7 | 1,433 |
| 1991: I | 10,190 | 4.3 | 8,251 | 3.9 | 1,939 |
| II (p) | 10,223 | -2.2 | 7,765 | -7.5 | 2,458 |

## Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

| | Exports (f.o.b.) | Change Over Year-Earlier Period | Imports (c.i.f.) | Change Over Year-Earlier Period | Trade Balance |
|---|---|---|---|---|---|
| 1986 | $80,456 | 23.3% | $29,054 | 12.6% | $51,401 |
| 1987 | 83,580 | 3.9 | 31,491 | 8.4 | 52,090 |
| 1988 | 89,634 | 7.2 | 42,037 | 33.5 | 47,597 |
| 1989 | 93,189 | 4.0 | 48,246 | 14.8 | 44,943 |
| 1990 | 90,322 | -3.1 | 52,369 | 8.5 | 37,953 |
| 1989: I | 22,726 | 14.4 | 11,599 | 15.0 | 11,127 |
| II | 22,997 | 6.4 | 12,064 | 15.4 | 10,933 |
| III | 24,117 | 4.6 | 12,462 | 16.8 | 11,655 |
| IV | 23,347 | -7.0 | 12,120 | 12.0 | 11,227 |
| 1990: I | 21,661 | -4.7 | 12,753 | 9.9 | 8,908 |
| II | 20,938 | -9.0 | 12,861 | 6.6 | 8,077 |
| III | 22,933 | -4.9 | 12,729 | 2.1 | 10,204 |
| IV | 24,790 | 6.2 | 14,025 | 15.7 | 10,765 |
| 1991: I | 22,324 | 3.1 | 13,247 | 3.9 | 9,077 |
| II (p) | 20,282 | -3.1 | 13,426 | 4.4 | 6,856 |

## Japan's Trade with the United States in Yen Terms

(in billions of yen)

| | Exports (f.o.b.) | Change Over Year-Earlier Period | Imports (c.i.f.) | Change Over Year-Earlier Period | Trade Balance |
|---|---|---|---|---|---|
| 1986 | Y13,564 | -13.0% | Y4,918 | -20.9% | Y8,646 |
| 1987 | 12,148 | -10.4 | 4,582 | -6.8 | 7,566 |
| 1988 | 11,487 | -5.4 | 5,388 | 17.6 | 6,099 |
| 1989 | 12,816 | 11.6 | 6,632 | 23.1 | 6,184 |
| 1990 | 13,057 | 1.9 | 7,586 | 14.4 | 5,471 |
| 1989: I | 2,899 | 14.1 | 1,478 | 14.6 | 1,421 |
| II | 3,139 | 16.0 | 1,648 | 25.9 | 1,491 |
| III | 3,436 | 12.2 | 1,773 | 25.0 | 1,663 |
| IV | 3,342 | 5.2 | 1,733 | 26.4 | 1,609 |
| 1990: I | 3,171 | 9.4 | 1,862 | 26.0 | 1,309 |
| II | 3,254 | 3.7 | 2,000 | 21.4 | 1,254 |
| III | 3,384 | -1.5 | 1,885 | 6.3 | 1,498 |
| IV | 3,249 | -2.8 | 1,838 | 6.1 | 1,411 |
| 1991: I | 2,978 | -6.1 | 1,767 | -5.1 | 1,211 |
| II (p) | 2,802 | -13.9 | 1,854 | -7.3 | 948 |

exports traded at an average rate of Y138.2=$1.00 in the April-June quarter compared to Y155.5=$1.00 a year earlier. The effect was to inflate the dollar value of exports, while leaving imports, which are more likely to be priced in dollars, relatively unaffected. Thus, the overall dollar imbalance widened even though exports dipped slightly in volume terms while imports rose modestly; that left the price-adjusted surplus somewhat smaller.

The effect of exchange rate differences on Japan's July-September trade figures is likely to be less since the yen averaged approximately Y148 to the dollar in the third quarter of 1990; to date the exchange rate has been running in the high Y130 range, and there is little to suggest that the average of the Japanese currency for this quarter will move out of the Y130 range. This argument indicates that, other factors equal, the imbalance will show a smaller year-to-year swing in the current quarter.

The regional distribution of Japan's third-quarter trade surplus, however, will depend on the courses traveled by the economies of the United States, Europe and Japan. If the U.S. economy recovers, as it appears to be doing, Japanese exports could rise, putting upward pressure on the bilateral imbalance. The strength of the Japanese economy will influence heavily the volume of imports from Europe. Japanese analysts attributed the rise in the April-June surplus with the EC to a sharp drop in European imports that reflected uncertainty among Japan's well-to-do, who buy a substantial share of expensive European goods, such as cars. Conversely, some Japanese analysts feel that the pattern of demand for Japanese goods in Europe resembles an "L," a shape that is supposed to represent stable demand in the face of higher prices. But if "L" stands for "large," it could refer to the size of the negotiating table that might be required if future quarterly trade numbers resemble those from the April-June period.

Douglas Ostrom

House Hears Varying Views On U.S.-Japan Relationship

A panel of the House Committee on Foreign Affairs took a close look July 16 at the U.S.-Japan relationship and heard a range of recommendations on how Washington should approach the alliance. Rep. Stephen Solarz (D, N.Y.), chairman of the subcommittee on Asian and Pacific affairs, opened the hearing by noting the importance of looking carefully at "new American views of Japan and its international behavior, primarily because such views can affect the shaping of policy." The subcommittee set out, Rep. Solarz said, to consider whether the post-World War II partnership "has lost its usefulness and is becoming the victim of an irreversible crisis." Joining in the questioning were Rep. Robert Lagomarsino (R, Calif.) and the delegate from American Samoa, Eni Faleomavaega (D), who acknowledged, "No one really knows how to define the new framework of Japanese-American relations clearly."

A cautious view of current U.S.-Japan relations came from Kevin Kearns of the Economic Strategy Institute, a Washington, D.C.-based research organization; he expressed his "strong belief that neither our security nor our economic relationship with Japan is on sound footing and that a thorough review of America's Japan policy is necessary to begin to set things right." Mr. Kearns, a former State Department foreign service officer, more than a year ago

# NOTE

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